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Weekly Contributions  
Latin America Division, ORE, CIA  
21 February 1950

CURRENT DEVELOPMENTS


GENERAL: Despite reported revolutionary activities in the Caribbean, trouble is not expected in that area at this time (p. 2).

NORTHERN AREA: In Cuba, President Prío's new policy of "honest government" will probably fail and become a political liability (p. 2). Contemplated US financial aid for Nicaragua would benefit "dictator" Somoza (p. 3). In Guatemala, Communist-oriented labor leaders may obstruct ratification of the Rio Treaty (p. 3).

CENTRAL AREA: In Ecuador, President Plaza's party (the MCDN) is likely to be strengthened as the result of the change of directorship in the Liberal Party (p. 3).

SPECIAL SUBJECTS

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✓ 1. GENERAL: Reported Revolutionary Activities in the Caribbean

Recent evidences of plans and preparations by the Caribbean Legion again raises the question of trouble in that area. [redacted] indicate a possible increase in arms shipments from Mexico to Central America and plans for a new attack scheduled for the end of February (according to several unsubstantiated reports). It is quite likely that definite revolutionary plans and preparations are being made by the Caribbean Legion. It is unlikely, however, that an actual invasion attempt is imminent, not only because preparations do not seem to have reached this advanced stage, but also because of the deterrent effect of the recent visit of the COAS investigating committee to the Caribbean area.

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2. CUBA: President Prío's New Policy of "Honest Government"

Widespread public disapproval of governmental dishonesty, plus the increasing unification of the opposition in the current by-election campaign, have caused President Prío to announce a new policy of "honest government". The administration is now reasonably strong, but if the new policy is not effective, army officers [redacted] planning a coup to overthrow the government) may eventually be able to win increasing popular support on the basis of the general dissatisfaction. Other opposing groups, such as the Communists and General Batista's PAU, could also be expected to make the most of such a situation, thus constituting in time a threat to the stability of the administration.

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The president will have difficulty in implementing his new policy. It is true that he may be in a better position than previously to govern for the good of Cuba rather than on the basis of political expediency. He has now paid off his election debts and has removed from office some of the grafters and political obstructionists left over from the previous administration; he is no longer under any obligation [redacted]

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Vice President Pujol (Republican) and ex-president Grau (Auténtico). Another favorable factor is that the new cabinet appointed last week (D/LA Wkly, 7 Feb 50) is, on the whole, an improvement over the previous one. On the other hand, several factors lessen the chances for success of the president's new policy. Governmental reorganization in the interests of efficiency and honesty [redacted] few will actively support such an innovation, while powerful forces within the president's party will vigorously oppose it. Moreover, it would be particularly difficult to carry out reforms now because government employees are frozen in office for six months prior to each election. Another adverse factor is that the Habana mayoralty election, in which the president's brother is the Auténtico candidate, may prove to be relatively close requiring special vote-getting [redacted]

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[redacted] inconsistent with governmental reform.

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D/LA estimates therefore that a real change in basic governmental procedure will be difficult and that the anticipated failure to carry out effectively its announced new policy [ ] may prove to be a political liability to the Prio administration.

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3. GUATEMALA: Possibility of Communists Obstructing Ratification of Rio Treaty

Ratification of the Rio Treaty, expected to be presented to the Guatemalan Congress convening next month, may very well be delayed as a result of pressure by Communist-oriented labor leaders. Illustrative of their methods is a recent resolution of the Communist-dominated national convention of workers' political committee (representing the majority of organized labor) repudiating the Rio Treaty and the Atlantic Pact as allegedly "harmful to national independence and transgressing the United Nations Charter".

4. NICARAGUA: Somoza Should Benefit if US Financial Aid Materializes

The proposed US budget includes a recommendation that \$8,000,000 be appropriated for the completion of the Rama Road, which will provide Nicaragua with access to the Caribbean, but which is not part of the Inter-American Highway and is of little military and commercial significance to the US. Pro-Somoza newspapers have played up this proposed expenditure as evidence of Somoza's influence with the US.

D/LA estimates that, should funds be appropriated for the Rama Road, this will strengthen Somoza's position as Nicaragua's strong man. If similar aid is not granted to other Central American countries (which also lack good road connections with the Caribbean), such an appropriation for Nicaragua will be regarded by these countries as approval by the US of the Somoza "dictatorship".

5. ECUADOR: Change of Liberal Party Director Likely to Strengthen MCDN

The selection of Julio Theodoro Salem as Supreme Director of the Liberal-Radical Party should result in strengthening President Plaza's party, the Movimiento Cívico Democrático Nacional (MCDN), thereby serving US interest in the stability of the Ecuadoran government. The former director, Julio Moreno Espinosa, who has guided the Liberal Party in a policy of vigorous opposition to the Plaza government, resigned in January because the MCDN Minister of Government, Guillermo Ramos, [ ]

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[ ] Ramos is pleased with the situation as he feels that the appointment of Salem (who like Moreno represents the extreme wing of his party [ ]) will further alienate the more moderate wealthy Liberals and encourage them to support the MCDN. D/LA estimates that such a realignment of moderate Liberals is very likely to result. While the principal effect of such a development would be to strengthen Plaza's position, the very awareness of the Liberal Party's declining influence may well stimulate its leaders to increased revolutionary activities as the only remaining means of assuming power.

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The Current Situation in Panama

(Summary -- The Arias administration is not yet stable. The economic situation is unfavorable, but the president is tackling economic problems with determination. The Communists maintain their capability for agitation and dissemination of anti-US propaganda. Student groups continue to figure in subversive activities. [REDACTED])

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[REDACTED] President Arias is currently pursuing a friendly attitude toward the United States.

-- US security interests would be adversely affected by another political upset in Panama, and therefore the present unstable political situation is a disadvantage to the United States.)

Political

The Arias administration has not yet attained stability since its recent assumption of power (November 1949) as a result of a coup arranged by Chief of Police Remón. To date President Arias has not gained sufficient strength to oust Remón and his associates who threaten to force him, in turn, out of power (D/LA Wkly, 31 Jan). In addition, the president has made some unfortunate political moves which have intensified the resistance to him by alienating former supporters and by supplying his political opponents with new issues. A coup d'état is therefore possible, and since Arias has armed his supporters, the ensuing struggle could be more bloody than the coup which brought him to power. However, his overthrow is not inevitable because -- unlike his immediate predecessors -- he is backed by a majority of the National Assembly and can therefore more easily implement his policies. He has made sound statements of political and economic policy which have made a good impression in many quarters. It is estimated that the president may in time be able to stabilize his administration, provided that a coup d'état does not occur before this can be accomplished.

Economic

The economic situation is unfavorable, but President Arias is tackling economic problems with determination. It is true that unemployment continues high because of the layoffs of recent months in the Canal Zone. Substantially nothing has been done thus far in the current administration to provide alternative jobs through public works or other forms of economic development, because the president inherited

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an almost empty treasury, a large floating debt and a poor foreign credit rating. Nevertheless, Arias is trying to cut government expenses and balance the budget, and reportedly will also work to improve the tax collection system, to arrange for the payment of the floating debt, and to attract foreign loans and investments for economic development. It is estimated that there will be no great improvement in Panama's economic situation in the immediate future, but that if the political situation stabilizes it may be possible for the president to lay a foundation for later economic progress.

#### Subversive

The Communists maintain their capability for agitation and dissemination of anti-US propaganda. It is true that there are few militant Communists in Panama, that the Communist Party has chronic financial difficulties, and that there are evidences of some increasing opposition to Communism in labor and student groups and in the administration. Nevertheless, Communist leaders are politically astute, the opposition is uncoordinated, and President Arias is not strong enough to implement his anti-Communist policy. Therefore, it is estimated that, in general, there will be no substantial decrease in Communist capabilities in coming months.

Student groups continue to figure in subversive activities. These groups characteristically are used in political maneuvers by both the Communists or fellow travellers, who are a very small minority of the groups, and by conservative ultra-nationalists (Harmodio Arias). The frequent similarity of political aims of these two extremist factions tends to increase the political importance of these student groups.



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#### International

President Arias is currently pursuing a friendly attitude toward the United States. He recently obtained ratification by the National Assembly of a claims convention which settles long-standing financial problems between Panama and the US. He takes every opportunity to emphasize the community of interests between the two countries and has pledged full protection to all foreign capital that is used for national development, provided that it respects Panamanian laws. It is estimated that important factors in Arias' friendly attitude are his unstable position politically and the unfavorable economic situation of Panama, and that this attitude will not change radically in the near future.

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### The Current Situation in Argentina

(Summary--The Perón government, concerned over possible loss of vital support, has during recent months made drastic efforts to consolidate its position, utilizing increasingly severe anti-democratic methods. New developments somewhat favorable to economic adjustment have not been adequate to ease the continuing problems of inflation, shortage of foreign exchange, and low productivity; the drought may aggravate these difficulties. The government has continued its anti-Communist campaign. For the most part the military appear to be satisfied and loyal. Formal relations with the US remain good even though Perón's anti-democratic measures and his apparent desire for expedient economic collaboration with the US are not reconcilable.

--US security interests are favored by Perón's recognition of the need for expedient economic collaboration with the US, and by his anti-Communist measures. On the other hand the continuation of undemocratic practices and anti-US propaganda within Argentina, and the possibility of a vitriolic campaign against the US, adversely affect US interests in Hemisphere solidarity and in the extension of democracy.)

### Political

The administration has endeavored during recent months to consolidate and entrench its political power. To this end a congressional committee on anti-Argentine activities (see D/LA Wkly 17 Jan 50) has closed approximately one-fourth of Argentina's newspapers and has otherwise restricted the opposition--which remains disunited in face of the possible application of repressive legislation (D/LA Wkly 25 Oct 49). The committee has attempted to justify at home and abroad such action by claiming the need to "purify" the press and to protect it from foreign influence. Moreover, Perón has publicly sought to arouse pro-Perón nationalism and to create optimism over his government's stability. These measures are probably designed to neutralize the political ill effects of current economic difficulties (particularly affecting labor), to reinvigorate Perón's support in provincial elections and to anticipate the 1952 presidential elections. Despite curbs on the opposition and Perón's bids for support, the administration has not improved its position. Most important has been a noticeable weakening in Perón's vital labor support, but there also have been slight reductions in Peronista voting strength in recent provincial elections; these developments, plus an increasing amount of public criticism (such as that resulting from a murder of a Communist labor leader by provincial police) have been vigorously exploited by the Radical opposition.

D/LA estimates that the government will be able to maintain its present degree of stability despite possible decrease in provincial electoral majorities and despite the critical economic situation.

### Economic

Argentina's economic situation has not improved. It is true that during the past months an increase in Argentina's vital export trade and government

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emphasis on agriculture were developments in the direction of economic readjustment. Financial and political considerations, however, have limited the effectiveness of efforts toward economic reform; and inflation, shortages of foreign exchange and low productivity continue. These difficulties will probably be aggravated by the present drought. Indications point to a corn crop (the leading pre-war export) insufficient for export, further reduction of other crops and uncertainty concerning the level of livestock production.

This prospective decline in foreign exchange earning capacity coincides with the need for large purchases abroad of agricultural, transport and industrial equipment, with substantial arrears abroad and with an already weak foreign exchange position. Retrenchment therefore appears inevitable as an influx of foreign capital, the only means of averting it, cannot be expected at this time.

Trade relations with the UK have been strained; discussions will begin shortly to determine a new meat price and to set trade goals for the second year of the UK-Argentine agreement. Spanish-Argentine trade has reached an impasse because of Spain's default on its commitments and Argentina's adverse economic situation. Optimism for expansion of US-Argentine trade as a result of the work of the Joint Argentine-US Committee for Commercial Studies has been expressed in both official and private circles in Argentina, but the government has neither published the text of the report nor disclosed plans for its implementation, other than the establishment of a permanent US-Argentine trade committee in Buenos Aires. Meanwhile, Perón publicly disavows any intention of obtaining a foreign loan although discreet feelers have been put out for a possible loan from the US. Similar feelers have been reported in the case of the UK.

#### Military

The Army appeared for the most part to be satisfied and loyal although influential officers are probably sensitive to Perón's latest concessions to labor and the reappearance of Señora Perón in labor circles. Renewal of the USAF mission agreement for a one-year period coincided with increased utilization of the US Army mission by the Argentine Army. The military's efficiency, morale (recently stimulated by a significant number of promotions), and quality of manpower remained exceptionally high by Latin American standards.

#### Subversive

The Perón government has continued its vigorous anti-Communist campaign to restrict Communist labor activities and to appeal to nationalist sentiment. Communists, for example, are being purged from the government-dominated labor federation; four important Communist-front organizations were raided; the two leading Communist publications were closed down. The Communists will endeavor to exploit the administration's difficulties and its repressive measures but police action should prevent any protracted Communist-inspired disturbances during coming months.

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International

Normal relations with the US continue good despite the irreconcilability of the government's anti-democratic measures and despite anti-US propaganda on the domestic front. Unfavorable press reactions in the Hemisphere, particularly in the US, to Peron's most recent repressive measures, and Argentine press attacks on the US continue to complicate US-Argentine relations. Moreover, indications point to a vitriolic anti-US propaganda campaign if the economic situation deteriorates further and if US economic collaboration does not materialize to the definite advantage of Argentina. Chile-Argentine relations were improved by an exchange of letters of mutual friendship by the presidents of the two countries. Argentina joined the UK and Chile in a renewal of their agreement to refrain from naval displays in the Antarctic south of latitude 60 during the coming season.